

CITY OF VAN HORNE

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2021 THROUGH JUNE 30, 2022**

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City of Van Horne

City of Van Horne

Officials

(Before January 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Martin Junge *	Mayor	Jan 2022
Pat Gorkow **	Mayor	Jan 2024
Amy Knaak	Council Member	Jan 2022
Jim Parmenter	Council Member	Jan 2022
Kim Fisher	Council Member	Jan 2022
Todd Donald	Council Member	Jan 2024
Jared Childs	Council Member	Jan 2024
Linda Klopping	City Clerk	Indefinite
Kollmorgan, Schlue & Zahradnik	City Attorney	Indefinite

(After January 2022)

Pat Gorkow	Mayor	Jan 2024
Amy Knaak	Council Member	Jan 2026
Jim Parmenter	Council Member	Jan 2026
Kim Fisher	Council Member	Jan 2026
Todd Donald	Council Member	Jan 2024
Jared Childs	Council Member	Jan 2024
Linda Klopping	City Clerk	Indefinite
Kollmorgan, Schlue & Zahradnik	City Attorney	Indefinite

* - Passed away in August 2021.

** - Took office in November 2021 after the November 2021 election.



FALLER, KINCHELOE & Co, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Van Horne for the period July 1, 2021 through June 30, 2022, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Van Horne's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The City of Van Horne's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City including the City's compliance with certain Code of Iowa requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.

4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2022 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.

16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were engaged by the City of Van Horne's management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City of Van Horne and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Van Horne during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co, PLC

June 22, 2023

Detailed Findings and Recommendations

CITY OF VAN HORNE
DETAILED FINDINGS AND RECOMMENDATIONS
For the period July 1, 2021 through June 30, 2022

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Van Horne (City):

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody of investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Debt – recordkeeping, compliance and debt payment processing.
7. Utilities – billing, collecting, depositing and posting.
8. Financial reporting – preparing and reconciling.
9. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The bank reconciliations tested included several reconciling items which should not have been included as reconciling items.

Recommendation – The City should establish procedures to ensure the reconciling items on the bank reconciliation are accurate and complete.

- (C) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for three of four meetings tested were not published within fifteen days.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa. Specifically, the City should ensure the City Council minutes are published in a timely manner.

- (D) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

CITY OF VAN HORNE
DETAILED FINDINGS AND RECOMMENDATIONS
For the period July 1, 2021 through June 30, 2022

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

- (E) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Jim Parmenter, City Council member	Umpire	\$400

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council member do not appear to represent a conflict of interest.

- (F) Annual Urban Renewal Report (AURR) – The City’s receipts, disbursements and ending cash balances reported on the AURR Levy Authority Summary do not agree with the amounts as reported on the City’s Annual Financial Report. The ending obligation balance reported on the AURR Levy Authority Summary does not agree with the tax increment financing indebtedness certification form filed with the County Auditor.

Recommendation – The City should ensure the balances reported on the AURR Levy Authority Summary agree with the City’s records and reconcile with the Annual Financial Report and the forms filed with the County Auditor.

- (G) Certified Budget – Disbursements during the year ended June 30, 2022 exceeded the amounts budgeted in the culture and recreation and the debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (H) Revenue Bonds – The following instances of non-compliance with the revenue bond requirements were noted:

- The Water Revenue Bonds resolution requires the City “leave a balance of net revenues equal to at least 110% of the principal of and interest on all of the bonds and any other parity obligations due in such fiscal year, as they become due.”

CITY OF VAN HORNE
DETAILED FINDINGS AND RECOMMENDATIONS
For the period July 1, 2021 through June 30, 2022

However, the Water Fund had a cash balance of (\$15,102) at June 30, 2022. As a result, the City is not in compliance with the above revenue bond requirement, as the balance in the fund is negative as of June 30, 2022.

- The Sewer Revenue Bond resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sinking account.

However, the Sewer Fund sinking account had a negative cash balance of (\$565,042) at June 30, 2022. As a result, the City is not in compliance with the above revenue bond requirement, as the balance in the sinking account is not backed by cash.

Recommendation – The City should implement procedures to ensure the water revenue bond and sewer revenue bond requirements are in compliance with the various bond resolutions.

- (I) Management Financial Information – The Clerk’s financial reports to the City Council do not include a summary of beginning balance, receipts, disbursements, transfers and ending balance by fund, or comparisons of budget with actual by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function. Also, for better financial information, the monthly reports should also include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

- (J) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 25% for street improvements and 75% for utility improvements. All of the local option sales tax receipts are recorded in a special revenue fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

- (K) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

CITY OF VAN HORNE
DETAILED FINDINGS AND RECOMMENDATIONS
For the period July 1, 2021 through June 30, 2022

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (L) Separately Maintained Records – The Library maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (M) Financial Condition – At June 30, 2022, the City had deficit balances of \$2,251, \$25,699 and \$15,102 in the Special Revenue, Employee Benefits Fund, the Capital Project Fund and the Enterprise, Water Fund, respectfully.

Recommendation – The City Council should investigate alternatives to eliminate these deficits and return these funds to a sound financial position.

- (N) Annual Financial Report (AFR) – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City..." The City's debt transactions as reported on page 10 of the AFR do not agree with the City's records.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records.

- (O) 1099-NEC Forms – It appears the City did not issue some Internal Revenue Service 1099-NEC forms as required.

Recommendation – The City should implement procedures to ensure Internal Revenue Service 1099-NEC forms are issued as required.

CITY OF VAN HORNE
DETAILED FINDINGS AND RECOMMENDATIONS
For the period July 1, 2021 through June 30, 2022

- (P) Bank Deposits – Deposits to the bank are not made on a timely basis. The City only made utility deposits to the bank on two different days in June 2022. Deposits should be made on a more timely basis, preferably daily, or when the cash and checks on hand exceed a pre-determined amount, if deposited less than daily.

Recommendation – The City should establish procedures to ensure all receipts are timely deposited.

- (Q) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification.

It appears the City did not certify the principal and interest associated with the \$527,000 sewer improvement note.

Recommendation – The City should consult TIF legal counsel to determine the disposition of this issue. The City should ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa.